

Accepted Manuscript

Capital misallocation in China: Financial frictions or policy distortions?

Guiying Laura Wu

PII: S0304-3878(17)30093-7

DOI: [10.1016/j.jdeveco.2017.10.014](https://doi.org/10.1016/j.jdeveco.2017.10.014)

Reference: DEVEC 2178

To appear in: *Journal of Development Economics*

Received Date: 11 March 2015

Revised Date: 25 October 2017

Accepted Date: 29 October 2017

Please cite this article as: Wu, G.L., Capital misallocation in China: Financial frictions or policy distortions?, *Journal of Development Economics* (2017), doi: 10.1016/j.jdeveco.2017.10.014.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Capital Misallocation in China: Financial Frictions or Policy Distortions?*

Guiying Laura Wu[†]

This version: October 2017

Abstract

Policy distortions and financial frictions are two leading candidates in generating capital misallocation. This paper designs an identification strategy to separate their effects on average MRPK dispersion across firm ownership, as the average treatment effect on the treated and the selection bias from a policy intervention. Financial frictions are estimated to cause an aggregate TFP loss of 8.3 percent on the intensive margin, which accounts for 30 percent of the capital misallocation observed in China. Using the counterfactual MRPK from a matching procedure, some popular hypotheses on what drive the policy distortions are tested in the matched samples.

JEL Classification: O47, O16, O43, C14, P33

Keywords: capital misallocation, financial frictions, policy distortions, propensity score matching, Chinese economy

*I would like to thank the editor Douglas Gollin and two anonymous referees for their constructive suggestions. I am also grateful to the helpful comments from Myoung-Jae Lee, Michael Zheng Song and Cheng Wang. Chanbora Ek provided excellent research assistance. The financial support from the New Silk Road Research Grant M4080405 and MOE AcRF Tier 1 Grant M4011314 at Nanyang Technological University is gratefully acknowledged.

[†]Address: Division of Economics, School of Social Sciences, Nanyang Technological University, Singapore. Email: guiying.wu@ntu.edu.sg.

Download English Version:

<https://daneshyari.com/en/article/7357779>

Download Persian Version:

<https://daneshyari.com/article/7357779>

[Daneshyari.com](https://daneshyari.com)